

# **Financial Integration of East Asian Economies: Evidence from Real Interest Parity**

## **Abstract**

In this paper, we investigate the financial linkages between the East Asian economies with Japan and the US using the real interest rate parity (RIP) condition. We test for long-run RIP using an array of panel unit root tests, including a recent technique developed by Breuer et al. (2002). This study offers two important results: first, we found strong (robust) evidence that the parity condition holds in all the Asian countries, except for China. For China, there is no evidence of RIP when Japan is used as based country. Real interest differential between China and the US exhibits a tendency towards stationary equilibrium over the period 1987-2006. Second, the analysis drawn on half-life suggests that the US-Asian link has been getting stronger than the Japan-Asian one in the post-liberalization era.

Keywords: RIP, panel unit root tests, half-lives

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